**GAAP Exercise**

**For each of the following scenarios, identify the GAAPs that have been violated and a brief explanation as to why you think this.**  
  
1. The owner of a sole proprietorship lists his family vehicle under the assets section of the company’s balance sheet.

2. The owner of a small clothing outlet lists the value of the company car at its current resale value because he assumes the business is about to close once Wal-Mart moves into the neighbourhood the following year.

3. An accountant alternates between using a one-year fiscal period and a three-month fiscal period for her business.

4. A large, multinational corporation issues an amended balance sheet which features restated values for Office Supplies due to the omission of $16 worth of elastic bands.

5. The purchase of a new computer was recorded at its retail value (sticker price) of $600 even though the company had negotiated a good deal and paid only $400 for the item.

6. A corporation fails to disclose in its annual report that it is the defendant in a $3 million class action lawsuit recently launched by disgruntled shareholders.

7. A bookkeeper records a credit sale in the books of the company on March 14 because that was the day that payment of the account was finally received.

8. A telephone bill is recorded in the books on the day it was finally paid even though the bill had arrived three weeks earlier.

9. The CEO of a large company encourages her department to work from memory and not spend too much time worrying about the maintenance of source documents.

10. An accountant ignores the gradual loss in market value of the firm’s merchandise inventory in order to improve the equity position of the company.

11. An accountant alternates between the straight-line and declining-balance methods of depreciation on the company building in order to lower expenses and increase profits.